

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-09 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14 USIA-12 T-03

AID-20 COME-00 EB-11 LAB-06 SIL-01 AGR-20 OMB-01

TRSE-00 CU-04 RSR-01 /146 W
----- 020775

P 101225 Z MAR 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 456

C O N F I D E N T I A L SECTION 1 OF 2 PHNOM PENH 2177

FOR STATE/ AID

E. O. 11652: GDS

TAGS: PINS, CB

SUBJECT: MODIFICATIONS IN GKR ECONOMIC, FINANCIAL AND FISCAL
PROGRAMS AND POLICIES

REF: A. PHNOM PENH 2160

IK B. PHNOM PENH 1378

C. PHNOM PENH 2106

1. SUMMARY. THE CHANGES SET FORTH IN THE " DECISION" SIGNED BY
PRIME MINISTER HANG THUN HAK AND ANNOUNCED TO PARLIAMENT ON
MARCH 9 INCLUDE SLIGHT REDUCTIONS IN THE PRICES OF POL;
POSTPONEMENT OF INCREASES IN WATER AND ELECTRICITY RATES;
MAINTENANCE OF PRESENT GOVERNMENT- CONTROLLED PRICES ON RICE;
REDUCTION IN THE NUMBER OF TROOPS; A THREE- MONTH STUDY OF THE
PROBLEM OF SALARY AND WAGE SCALES, BOTH PRIVATE AND PUBLIC; AND
OTHER MEASURES TO IMPROVE THE OPERATIONS OF THE GOVERNMENT AND
THE ECONOMY.
END OF SUMMARY.

2. POL: NEW PRICES WENT INTO EFFECT AT 0000, MARCH 10, AND
SUPERSEDED THOSE PREVIOUSLY INSTITUED BY THE GKR ON FEBRUARY
15, AS REPORTED IN REF (B).

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	RIELS PER LITER		
	5/71-2/15/73	2/15/73	3/6/73
MOGAS	16	28	25
KEROSENE	9	16	15
GAS- OIL	8	16	15
DIESEL OIL	5	15	14
FUEL OIL	3	10	9

THE GOVERNMENT HAS STATED THAT THE REDUCTION IN PRICES WILL REDUCE BUDGETARY RECEIPTS IN 1973 BY AN ESTIMATED 250 MILLION RIELS. ACCORDING TO ITH THUY, MINISTER OF ECONOMIC AFFAIRS AND FINANCE, THE PRIVATE PARTIES INVOLVED IN PETROLEUM DISTRIBUTION HAVE AGREED TO REDUCE THEIR PROFIT MARGINS AND ABSORB 150 MILLION RIELS IN ORDER TO FORESTALL A FURTHER LOSS IN GOVERNMENT REVENUES.

3. WATER AND ELECTRICITY. THE FEBRUARY DECISION OF THE CABINET TO RAISE WATER AND ELECTRICITY RATES IS HELD IN ABEYANCE. THEY ARE TO REMAIN THE SAME AS BEFORE FOR A PERIOD OF TWO MONTHS AND WILL BE STUDIED AGAIN. ACCORDING TO THE " DECISION" OF THE PRIME MINISTER, THE NEW PRICES MUST CONFORM WITH " REALISM." THE QUESTION OF CHANGES IN THESE RATES IS TO BE STUDIED IN COOPERATION WITH A COMMITTEE/ COMMITTEES OF THE NATIONAL ASSEMBLY AND SENATE. CHHUT CHHOEUR, PRESIDENT OF EDC, WAS NOT INFORMED IN ADVANCE OF THE GOVERNMENT' S DECISION ON ELECTRICITY RATES. THE NEW PRICES OF FUEL AND DIESEL OIL, WHILE SLIGHTLY LOWER THAN THEIR FEBRUARY 15 LEVELS, ARE MUCH HIGHER THAN THOSE IN EFFECT BEFORE THAT DATE AND THUS WILL INCREASE SUBSTANTIALLY THE REQUIREMENT FOR GKR SUBSIDIZATION OF EDC FOR AT LEAST THE NEXT TWO MONTHS.

4. RICE. THE PRICE OF RICE WILL REMAIN CONTROLLED BY THE GOVERNMENT. THE PRICES PUT INTO EFFECT IN SEPTEMBER, 1972, WILL BE RETAINED. DESPITE THIS DECISION, THE CABINET ON MARCH 9 APPROVED A RECOMMENDATION OF THE MINISTER OF AGRICULTURE TO ESTABLISH A FLOOR PRICE FOR PADDY FOR THE NEXT PLANTING SEASON OF 1,215 RIELS PER PICUL (68 KG). THIS IS HIGHER THAN OUR RECOMMENDATION OF 1,100 RIELS TO THE MINISTER AS OUTLINED IN REF (C) AND SHOULD PROVIDE A VERY AMPLE INCENTIVE TO FARMERS TO PLANT RICE. WE DO NOT YET KNOW WHEN THE NEW FLOOR PRICE IS TO BE ANNOUNCED, BUT WILL FIND OUT AT THE BEGINNING OF NEXT WEEK.

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5. PHARMACEUTICALS. THE PRICES OF PHARMACEUTICALS WILL BE

CONTROLLED TO PREVENT WHAT ARE REFERRED TO AS IMPROPER INCREASES.

6. WAGES AND SALARIES. THE GOVERNMENT IN THE NEXT THREE MONTHS WILL STUDY THE QUESTION OF INCREASES IN WAGES AND SALARIES OF ALL EMPLOYEES INCLUDING EMPLOYEES OF THE GOVERNMENT, BOTH CIVILIAN AND MILITARY, AND WORKERS IN THE PRIVATE SECTOR. ACCORDING TO ITH THUY, A GOVERNMENTAL COMMITTEE, WHOSE MEMBERSHIP WILL INCLUDE REPRESENTATIVES FROM THE CONCERNED MINISTRIES, WILL BE RESPONSIBLE FOR COMING UP WITH RECOMMENDATIONS. EVERS, IMF RESIDENT REPRESENTATIVE, HAS AGREED TO SERVE AS A TECHNICAL EXPERT FOR THIS COMMITTEE. ITH THUY INQUIRED AS TO WHETHER WE WOULD ALSO BE PREPARED TO FURNISH AN EXPERT. WE REPLIED THAT SINCE EVERS IS THE ECONOMIC AND FINANCIAL ADVISOR TO THE GKR, WE THOUGHT IT INAPPROPRIATE FOR THE US ALSO TO PROVIDE AN EXPERT AND EXPRESSED COMPLETE CONFIDENCE IN HIM. ITH THUY STATED THAT THE GOVERNMENT WAS THINKING IN TERMS OF AUTOMATIC COST- OF- LIVING ADJUSTMENTS AND HE ASSUMED THAT IF PRICES DECLINED, SO WOULD THE ADJUSTMENTS.

7. NUMBER OF EFFECTIVES. THE PRIME MINISTER CONFIRMED WHAT WE HAVE ALREADY BEEN TOLD BY THE GKR, NAMELY THAT BEGINNING IN MARCH, THE NUMBER OF MEN ON THE MILITARY PAYROLL IS TO BE REDUCED. IN HIS " DECISION," HANG THUN HAK STATED THAT THIS IS BEING DONE IN ORDER TO SAVE TWO BILLION RIELS IN 1973. THIS IS EQUIVALENT TO REDUCING THE NUMBER FROM THE LEVEL OF 282,500 IN JANUARY TO 253,000. HOWEVER, IT SHOULD BE NOTED THAT THE ESTIMATED TOTAL BUDGET EXPENDITURE OF 34.7 BILLION RIELS FOR 1973 SUBMITTED BY THE MINISTRY OF FINANCE TO THE CABINET ON FEBRUARY 17 WAS BASED ON 250,000, NOT A HIGHER FIGURE. THUS, EVEN IF THE GKR IS SUCCESSFUL IN REDUCING THE NUMBER OF MEN PAID TO 250 - 253,000, THERE WILL NOT, IPSO FACTO, BE A REDUCTION IN THE TOTAL AMOUNT OF EXPENDITURES AS ESTIMATED BY THE MINISTRY OF FINANCE IN ITS BUDGET SUBMISSION.

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ACTION EA-14

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NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14 USIA-12 T-03

AID-20 AGR-20 TRSE-00 OMB-01 CU-04 COME-00 EB-11

LAB-06 SIL-01 RSR-01 /146 W
----- 028100

P 101225 Z MAR 73

FM AMEMBASSY PHNOM PENH
TO SECSTATE WASHDC PRIORITY 457

C O N F I D E N T I A L SECTION 2 OF 2 PHNOM PENH 2177

C O R R E C T E D C O P Y (T E X T)

8. IMPORTATION OF LUXURY GOODS FINANCED BY THE ESF. THE PRIME MINISTER ANNOUNCED THAT MEASURES WOULD BE TAKEN TO PREVENT IMPORTATION OF LUXURY GOODS WHICH ARE NOT NECESSARY IN TIME OF WAR. IN FEBRUARY, WE RAISED IN THE WORKING GROUP OF THE ESF THE QUESTION OF THE IMPORTATION OF PASSENGER AUTOMOBILES.

THE WORKING GROUP THEN REQUESTED A REPORT FROM THE MINISTRY OF FINANCE REGARDING THE GKR POLICIES AND REGULATIONS COVERING IMPORTATION OF, AND DUTIES AND TAXES ON, THESE VEHICLES. THE MINISTRY HAS NOT RESPONDED TO THIS REQUEST, BUT AS A RESULT OF THE PRIME MINISTER'S STATEMENT, PRESUMABLY SOME ACTION WILL NOW BE TAKEN. WITHIN THE PAST FEW DAYS, WE HAVE RECOMMENDED TO ITH THUY THAT THE IMPORTATION OF ALL PASSENGER VEHICLES BE PROHIBITED, NOT JUST THOSE HAVING AN F. O. B. COST OF MORE THAN \$2400 AS AT PRESENT, NOTING THAT SUCH PROHIBITION WOULD THEN BRING THE RULES UNDER THE NOUVEAU MARCHÉ DES CHANGES INTO LINE WITH THOSE OF THE CIP. WE HAVE ALSO GIVEN TO ITH THUY A VERY SHORT LIST OF OTHER IMPORTED LUXURY GOODS WHICH SHOULD BE CONSIDERED FOR PROHIBITION, INCLUDING BEER, WINE, CHAMPAGNE, SPIRITS, LUXURY FOODS, JEWELRY AND COSMETICS, IN THE HOPE OF FORESTALLING THE REINTRODUCTION OF A MORE EXTENDED LICENSING SYSTEM WHICH WOULD IMPAIR THE EFFECTIVENESS OF THE NOUVEAU MARCHÉ DES CHANGES. BEFORE MAKING THIS MOVE, WE
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DISCUSSED THE MATTER WITH EVERS, WHO STATED THAT HE WOULD OPPOSE ANY SUCH CHANGES AND FELT THE PROBLEM SHOULD BE APPROACHED IN TERMS OF HIGHER AND EARLIER TAXATION. HE IS PRESENTLY DISCUSSING WITH THE MINISTRIES OF FINANCE AND COMMERCE A NUMBER OF PROPOSALS REGARDING DUTIES AND TAXES ON PASSENGER CARS, WHICH WE WILL REPORT ON BY SEPTTEL. WE AGREED TO DISAGREE ON THE QUESTION OF PROHIBITION AND DO NOT BELIEVE THIS DIFFERENCE OF OPINION WILL IMPAIR EITHER OUR RELATIONS WITH THE IMF OR LEAD THE IMF TO RECONSIDER ITS PRESENCE HERE.

9. ESTABLISHMENT OF A CONVOY SYSTEM. THE GKR WILL FORM CONVOYS

TO TRANSPORT GOODS BETWEEN CITIES AND PROVINCES IN ORDER TO AVOID SQUEEZE PAYMENTS EXACTED BY CHECKPOINTS ALONG TRADE ROUTES. THESE CHECKPOINTS, ACCORDING TO ITH THUY, HAVE BEEN IN EXISTENCE FOR MANY YEARS. THE PRIME MINISTER ASKED THAT REPRESENTATIVES OF STUDENTS, TEACHERS AND THE PEOPLE AT LARGE ASSIST IN THIS EFFORT.

10. COOPERATIVES TO DISTRIBUTE BASIC NECESSITIES. THE GOVERNMENT WILL HELP ORGANIZE COOPERATIVES IN ALL GOVERNMENT OFFICES, MILITARY UNITS, STATE AND PRIVATE INDUSTRIES AND POPULATION CENTERS TO PROVIDE FOR DISTRIBUTION OF RICE, SALT, FISH PASTE, FISH SAUCE, SUGAR AND CLOTH. GOVERNMENT BANKS ARE TO LOAN MONEY TO ASSIST THESE COOPERATIVES START OPERATIONS. THE EFFECT OF THIS PROPOSAL ON THE OPERATION OF SALES OUTLETS BY THE SOUS- ILOTS IS UNKNOWN.

11. ELIMINATION OF FALSE EXPENDITURES. PROCEDURES FOR DISBURSEMENT OF GOVERNMENT FUNDS ARE TO BE REORGANIZED TO PREVENT FALSE EXPENDITURES. IT THUY STATED THAT AT THE PRESENT TIME A SIMPLE BALLPOINT PEN WHICH SELLS FOR 100 RIELS IN THE MARKET COSTS GOVERNMENT AGENCIES 400 RIELS.

12. CORRUPTION. THE PRIME MINISTER ASKED THE PARLIAMENT TO ELECT MEMBERS IMMEDIATELY TO THE STATE CONTROL ORGANISM ACCORDING TO ARTICLE III OF THE CONSTITUTION. THIS BODY IS TO INSPECT AND INVESTIGATE GOVERNMENT AND PRIVATE PERSONNEL INVOLVED IN CORRUPTION, BRIBERY, ABUSES OF POWER, SMUGGLING, ILLEGAL STOCKING OF GOODS, ILLEGAL PRICE INCREASES, ILLEGAL COMPETITION, USURY AND " POSSESSION OF PROPERTY WHICH IS UNJUSTIFIED."

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13. NUMBER OF SENIOR GOVERNMENT OFFICIALS. HANG THUN HAK DENIED ALLEGATIONS THERE WERE 700 PERSONS HAVING THE RANK AND PRIVILEGES OF MINISTER, SECRETARY OF STATE AND UNDER SECRETARY OF STATE. REGARDLESS OF THIS, THE GOVERNMENT WILL STUDY THE PROBLEM IN ORDER TO REDUCE THE NUMBER TO A MINIMUM AND IS ASKING A COMMITTEE OF REPRESENTATIVES OF THE TEACHERS AND STUDENTS TO ASSIST IN THIS STUDY. WITH REGARD TO PERSONNEL IN THE EXECUTIVE CABINET OF THE PRESIDENT, MARSHAL LON NOL HAS ALREADY STARTED A REORGANIZATION IN ORDER TO HAVE ONLY THE MINIMUM NECESSARY IN TERMS OF NUMBER, RANK AND COMPETENCE.

14. MISCELLANEOUS. OTHER POINTS IN THE PRIME MINISTER'S DECISION COVERED UTILIZATION OF PROPERTY SEIZED BY THE GOVERNMENT; REVENUES COLLECTED FROM PURCHASE AND SALE OF VEHICLES; ORGANIZATION OF COMMITTEES IN KHANDS AND SROKS TO CONTROL PRICES, TOGETHER WITH AN INVITATION TO TEACHERS AND OTHERS TO COOPERATE; AND THE ARREST IN BATTAMBANG OF

THE FUGITIVE ABSCONDER YIN KHENG AND APPLICATION TO HIM OF THE
"LAW WITHOUT PARDON."
SWANK

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